

CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION

Request to Transfer Industrial Development Bond (IDB) Allocation

**Bay Photo Inc.
Application No. 11-0004**

July 26, 2011

SUMMARY

Borrower/Project Sponsor – Sammie Rae Abitol, LLC, Bay Photo Inc., and/or a related or affiliated entity

User – Bay Photo, Inc. dba Bay Photo Lab and/or a related entity

Issuer – California Infrastructure and Economic Development Bank (CIEDB)

Location – City of Scotts Valley, Santa Cruz County

Requested IDB Allocation – \$8.775 million

Public Benefit Points Awarded – 73 points out of 147 possible

Staff Recommendation – Approval

THE COMPANY

Bay Photo, Inc. (the Company or Bay Photo) was incorporated in California in June 1981, and it is owned 100 percent by its President, Larry Abitol. Sammie Rae Abitol, LLC (Project Sponsor) is a California limited liability company organized in July 2011, and it is owned and controlled 100 percent by its member, the trustees of the Larry S. Abitol Family Trust.

The Company is a professional quality photographic printing and finishing laboratory, primarily serving professional photographers that specialize in wedding, portrait, sport, school, and landscape photography. While the Company does provide high quality photo processing services to professional photographers and sophisticated amateur photographers, the Company's other services involve the use of customer photographs to create a variety of products, including albums (design and binding), canvas prints, metal prints, watercolor giclees, and other products. The Company also manufactures the various products into which the photographs are integrated.

Major customers of the Company include a variety of professional photographers and online photography sites such as SmugMug, Redbubble, Fotomoto, and Blue Canvas.

THE PROJECT

Bond proceeds will be used to pay for a portion of the cost of the acquisition of approximately 17 acres of land in Scotts Valley, the purchase of three existing, vacant buildings (900, 915, and 920 Disc Drive) totaling approximately 140,000 square feet situated on the land, and related improvements to these structures. Bond proceeds will also be used to cover most of the cost of building renovations, which will include the demolition of interior walls to accommodate open, flexible production/workspaces, the installation of electrical and ventilation systems to support operations, and the construction of a central core to provide access between adjoining buildings. Any remaining bond proceeds will be used for the cost of the acquisition and installation of new equipment for the Company's printing and production operations.

Bay Photo is relocating to the City of Scotts Valley from the City of Santa Cruz because it needs a larger facility to accommodate its current operations and future projected growth. The Company's current facilities, totaling approximately 38,000 square feet in the City of Santa Cruz, are located between two separate buildings and are inadequate to accommodate future growth and the addition of new product offerings. The Company represents that it has experienced significant sales growth in recent years. For the four calendar years from 2007 through 2010, Bay Photo states that it has had an average annual sales growth in excess of 20 percent. The relocation to the Project facility will allow Bay Photo to consolidate its operations into a single, larger campus-style facility that will support growth and an increased workforce for the future.

The Company provided a letter which was signed on behalf of Bonnie Lipscomb, Economic Development/Redevelopment Director for the City of Santa Cruz, in which she acknowledges the Company's relocation and states that the City of Santa Cruz does not object to the issuance of bonds for this Project. Staff contacted Ms. Lipscomb, who said that, while the City of Santa Cruz would prefer Bay Photo to remain in Santa Cruz, the City has no objection to the issuance of bonds for the Project in the City of Scotts Valley (see Attachment A).

Anticipated Project and Issuance Costs

	To be paid from <u>bond proceeds</u>	To be paid from <u>all other sources</u>
Acquisition of Land	\$ 2 million	\$500,000
Acquisition of Existing Building	4.85 million	875,000
Rehabilitation of Existing Building	1.15 million	210,000
Acquisition and Installation of New Equipment	600,000	150,000
Engineering/Architecture	0	135,000
Legal, Permits, etc.	0	65,000
Bond Issuance Expenses	175,000	100,000
Letter of Credit Fee	0	90,000
Totals	<u>\$ 8.775 million</u>	<u>\$ 2.125 million</u>

Timeline

The acquisition of the site will be completed on or about September 1, 2011. The Company expects to commence renovations by October 2011 and complete the construction by March 2012. The equipment purchases will be acquired and installed as renovations proceed.

Financing Details

The tax-exempt IDBs will be sold in a limited offering. The bonds will be variable rate interest bonds with a weekly reset, and they will be secured by an irrevocable Letter of Credit issued by Comerica Bank.

Financing Team

- Issuer: CIEDB
- Credit Enhancement Provider: Comerica Bank
- Bond Counsel: Kutak Rock LLP
- Bond Underwriter: Gates Capital Corporation
- Financial Advisor: Growth Capital Associates, Inc.
- Trustee: Wells Fargo Bank, N.A.

PROJECT EVALUATION

PUBLIC BENEFITS: The Project received 73 points out of a possible 147 pursuant to the California Debt Limit Allocation Committee (CDLAC) scoring system for IDB Projects. The award of points is detailed below:

A. Community Economic Need (5 of 25 points).

1. Unemployment Rate of the Project Area (0 of 10 points). In accordance with CDLAC procedures, points are awarded in this category if the 2010 unemployment rate of the county sub-area in which the Project is located is at least 125 percent of the 2010 statewide rate. The unemployment rate of this Project area is 50 percent of the statewide rate. Therefore, the Project received no points in this subcategory.

2. Poverty Rate of Project Area (0 of 5 points). In accordance with CDLAC procedures, the most recent data from the U.S. Bureau of the Census, which in this case is Census 2000 data, is used to determine if the Project qualifies for points in this category. Points are awarded in this category if the poverty rate is at least 110 percent or more of the statewide rate. The poverty rate for this Project

area is 2 percent, which is 18.9 percent of the Census 2000 statewide rate of 10.6 percent. Therefore, the Project received no points in this subcategory.

3. Special Designation Area (5 of 5 points). The Project is located in the Scotts Valley Redevelopment Project area.

4. Median Family Income (0 of 5 points). In accordance with CDLAC procedures, the most recent data from the U.S. Bureau of the Census, which in this case is from Census 2000, is used to determine if the Project qualifies for points in this category. Points are awarded if the Project is located in an area with a median family income of less than 80 percent of the statewide average. The Project is located in Santa Cruz County, census tract 1209, where the average median family income is \$87,758. The median family income for the State of California is \$53,025. So, the median family income for the Project area is 165.5 percent of the statewide average. Therefore, the Project received no points in this subcategory.

B. Job Creation (35 of 35 points). Points are awarded in this category based on the borrower and/or user's representation that it will use its best efforts to increase the number of direct, full-time employees at the Project site within two years of Project completion. The company represents that it currently employs 177 direct, full-time employees at the Project site. The company represents that it anticipates hiring an additional 78 direct, full-time employees, which equates to a 44 percent increase, within two years of completion of the Project.

C. Job Retention (0 of 10 points). Points are awarded in this category based on the User's representation that they have considered moving operations out of state. The Company is staying in the state and relocating within Santa Cruz County. Therefore, the Project received no points in this category.

D. Average Hourly Wage (3 of 10 points). In accordance with CDLAC procedures, the most recent data from the Bureau of Labor Statistics, which in this case is May 2010, is used to determine if the Project qualifies for points in this category. Points are awarded if the company's average hourly wage is at least 105 percent of the nearest Metropolitan Statistical Area (MSA) average hourly wage. The company's average hourly wage is \$17.32, while the MSA for the Santa Cruz/Watsonville area had an average 2010 manufacturing wage of \$15.70. Therefore, the company's average hourly wage is 110.3 percent of the average manufacturing wage for the Santa Cruz/Watsonville area.

E. Workforce and Economic Development (5 of 15 points).

1. Welfare-to-Work Plan (0 of 5 points). The Company provided no information indicating participation in a welfare-to-work program.

2. Workforce Training (0 of 5 points). The Company provided no information indicating participation in a workforce training program.

3. Exports Outside California (5 of 5 points). The Company provided written certification that it exports approximately 50 percent of its product outside of California.

F. Health Care Benefits (15 of 15 points). The Company provided documentation that it contributes to medical and dental insurance for 63 of its 177 employees. This contribution translates into an average of \$383 per month toward the health care benefits for each covered employee. The uncovered employees opted out of the plan for personal reasons. The Company represents that it will offer the same health benefits to new employees.

G. Payment of Retirement Benefits (0 of 5 points). The Company provided no information regarding retirement benefits.

H. Environmental Stewardship (7 of 27 points).

1. Land Use (3 of 3 points). This Project involves the reuse of vacant buildings.

2. Public Transit Corridor (4 of 4 points). The Company provided verification that the Project site is located within a public transit corridor. Santa Cruz Metropolitan Transit Routes 30 and 35A bus stops are within ¼ of a mile of the Project site.

3. Energy Efficiency and Renewable Energy (0 of 15 points). The Company did not provide information regarding the Project's energy efficiency.

4. Manufacturer of Certified Environmentally Preferable Products (0 of 5 points). The Company provided no information indicating the Project produces or will produce environmentally preferable products.

I. Leveraging (3 of 5 points). The total Project cost is \$10.9 million. The Company will borrow \$8.775 million of the Project costs in the form of tax-exempt IDB financing, which will cover approximately 80.5% of the Project costs. The remaining 19.5% of Project costs will be covered by the Company's equity or other funds.

RELOCATION OF COMPANY OPERATIONS

The Company is relocating from the City of Santa Cruz to the City of Scotts Valley. The Company provided a letter which was signed on behalf of Bonnie Lipscomb, Economic Development/Redevelopment Director, in which she acknowledges the Company's relocation and states that the City of Santa Cruz does not object to the issuance of bonds for this Project. Staff contacted Ms. Lipscomb, who said that, while the City of Santa Cruz would prefer Bay Photo to remain in Santa Cruz, the City has no objection to the issuance of bonds for the Project in the City of Scotts Valley (see Attachment A).

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

- The CIEDB approved the Inducement Resolution in an aggregate amount not to exceed \$9 million for the Project on June 22, 2011.

- The TEFRA notice was published June 30, 2011 in the Sacramento Bee, a newspaper of general circulation within Sacramento County and the Santa Cruz Sentinel, a newspaper of general circulation within Santa Cruz County. A TEFRA hearing was held by the CIEDB on July 14, 2011.
- The Project involves the acquisition and rehabilitation of three parcels of land totaling approximately 17 acres with three vacant commercial buildings which are zoned for manufacturing uses. The Company's operations do not require additional land use or zoning approvals or permits.

LEGAL QUESTIONNAIRE

Staff reviewed the Borrower's/User's responses to the questions contained in the Legal Status portion of the application. The responses did not disclose any information that raises questions concerning the financial viability or legal integrity of the company.

PRIOR ACTIONS AND FINANCINGS

None.

LOCAL GOVERNMENT SUPPORT

Staff received two letters of support of the Bay Photo Project from the City of Scotts Valley. Stephen Ando, City Manager for the City of Scotts Valley, submitted a letter expressing support for the Project (Attachment B). Randy Johnson, City Councilmember of the City of Scotts Valley, submitted a letter indicating support for the Project and its receipt of IDB financing (Attachment C).

CIDFAC FEES

In accordance with CIDFAC regulations, the Company has paid CIDFAC an application fee of \$1,250.¹

RECOMMENDATION

Staff recommends approval of Allocation Resolution No. 11-001-002 for \$8.775 million of tax-exempt IDB allocation for the CIEDB for the Bay Photo, Inc. Project.

Staff report by: Deanna Hamelin

¹ California Code of Regulations Title 10, Chapter 8, Article 3, §6070

**THE CALIFORNIA INDUSTRIAL DEVELOPMENT
FINANCING ADVISORY COMMISSION
RESOLUTION NO. 11-001-002
RESOLUTION TRANSFERRING A PORTION OF THE 2011 STATE CEILING
FOR QUALIFIED PRIVATE ACTIVITY BONDS FOR A
SMALL-ISSUE INDUSTRIAL DEVELOPMENT PROJECT**

WHEREAS, the California Debt Limit Allocation Committee (“CDLAC”) awarded allocation to the California Industrial Development Financing Advisory Commission (the “Commission”) for the purpose of awarding a portion of the allocation to local and State issuers; and

WHEREAS, the Commission has the authority to transfer a portion of its allocation to local and State issuers; and

WHEREAS, the Commission has received an application (“Application”) from the California Infrastructure and Economic Development Bank (“Applicant”) requesting a transfer to the Applicant of a portion of the 2011 State Ceiling on Qualified Private Activity Bonds (the “State Ceiling”) under Section 146 of the Internal Revenue Code of 1986, as amended, for use by the Applicant to issue bonds or other obligations (“Bonds”) for a Project as specifically described in Exhibit A (“Project”) (capitalized terms used herein and not otherwise defined shall have the meanings ascribed thereto in the Procedures of the CDLAC Implementing the Allocation of the State Ceiling on Qualified Private Activity Bonds (“CDLAC’s Procedures”)); and

WHEREAS, the Project Sponsor (as defined in Exhibit A) has represented certain facts and information concerning the Project in the Application, which the Applicant has confirmed; and

WHEREAS, in evaluating the Project and potential allocation of a portion of the State Ceiling to the Applicant for the benefit of the Project, the Commission has relied upon the

written facts and information provided in the Application and otherwise by the Project Sponsor and the Applicant; and

WHEREAS, it is appropriate for the Commission to approve a transfer of a portion of the State Ceiling (“Allocation”) in order to benefit the Project described in the Application.

NOW, THEREFORE, the California Industrial Development Financing Advisory Commission resolves as follows:

Section 1. An amount of the State Ceiling equal to \$8,775,000 shall be deemed to be transferred by the Commission to the Applicant. Such Allocation may be used only by the Applicant and only for the issuance of Bonds for the Project, as specifically described in Exhibit A. All of the terms and conditions of Exhibit A are incorporated as though fully set forth herein (this resolution, together with Exhibit A, hereinafter referred to as the “Resolution”).

Section 2. The terms and conditions of this Resolution shall be incorporated in appropriate documents relating to the Bonds, and the Project Sponsor, the Applicant and their respective successors and assigns will be bound by such terms and conditions.

Section 3. Any modification to the Project made prior to the issuance of the Bonds must be reported to the Executive Director and, if the Executive Director determines such modification to be material in light of the Commission’s Procedures, such modification shall require reconsideration by the Commission before the Allocation may be used for the Project. Once the Bonds are issued, the terms and conditions set forth in this Resolution shall be enforceable by the Commission through an action for specific performance or any other available remedy, provided however, that the Commission agrees not to take such action or enforce any such remedy that would be materially adverse to the interests of the Bondholders. The Commission may, as circumstances warrant, consent to changes in the terms and conditions set forth in this Resolution in the event the Commission is advised of changes in the Project.

Section 4. Prior to the issuance of the Bonds, any material changes in the structure of the credit enhancement and not previously approved by the Commission shall require approval of the Commission Chair or the Executive Director.

Section 5. The Applicant is not authorized to use the Allocation transferred hereby to make a carryforward election with respect to the Project. The Applicant is not authorized to transfer the Allocation to any governmental unit in the State other than this Commission.

Section 6. The Allocation transferred herein shall automatically revert to this Commission unless the Applicant has issued Bonds for the Project by the close of business within 90 days of the award of Allocation. In the case of extreme hardship, the Executive Director may extend this date by up to five (5) business days.

Section 7. Within twenty-four (24) hours of using the Allocation to issue the Bonds, the Applicant shall notify the Commission's staff and CDLAC's staff in writing (which may be by electronic or facsimile communication) that the Allocation has been used. Each notification to the Commission and to CDLAC shall identify the Applicant, the Project or program, the date the Allocation was used, and the amount of the Allocation used.

Section 8. Within fifteen (15) calendar days of the issuance of the Bonds, the Applicant or its counsel shall formally transmit to CDLAC information regarding the issuance of the Bonds by submitting, in a form prescribed by and made available by CDLAC a completed Report of Action Taken.

Section 9. Any differences between the amount of Bonds issued and the amount of the Allocation granted in Section 1 of this Resolution shall automatically revert to the Commission. If at any time prior to the expiration date set forth in Section 6 of this Resolution the Applicant determines that part or all of the Allocation will not be used to issue Bonds by that date,

the Applicant shall take prompt action by resolution of its governing board or by action of its authorized officer to return such unused Allocation to the Commission.

Section 10. The staff of the Commission is authorized and directed to transmit a copy of this Resolution to the Applicant together with a request that the Applicant retain, for the term of the Bonds, a copy of this Resolution in the Applicant's official records. The Commission staff is further directed to retain a copy of this Resolution in the files of the Commission (or any successor thereto) for the same period of time.

Section 11. The Applicant and the Project Sponsor shall comply with all of the terms and conditions contained in this Resolution and ensure that these terms and conditions are included in the documents related to the Bonds. Further, the Applicant and the Project Sponsor expressly agree that the terms and conditions of this Resolution may be enforced by the Commission through an action for specific performance or any other available remedy, provided however, that the Commission expressly agrees not to take such action or enforce any such remedy that would be materially adverse to the interests of the Bondholders. In addition, the Applicant and the Project Sponsor shall ensure that the Bond documents, as appropriate, expressly provide that the Commission is a third party beneficiary of the terms and conditions set forth in this Resolution.

Section 12. The Project Sponsor or its successor-in-interest shall provide certifications of compliance with the terms and conditions set forth in this Resolution when reasonably requested by the Commission.

Section 13. This Resolution shall take effect upon its adoption.

EXHIBIT A

**RESOLUTION NO: 11-001-002
(A SMALL-ISSUE INDUSTRIAL DEVELOPMENT PROJECT)**

1. Applicant: I-Bank
2. Application No.: 11-0004
3. Borrower/Project Sponsor: Sammie Rae Abitbol, LLC, Bay Photo, Inc., and/or a related or affiliated entity
4. Project User: Bay Photo, Inc. dba Bay Photo Lab and/or a related entity
5. Project Name: Bay Photo, Inc. Project
6. Project Description: Acquisition of Land, Acquisition and Rehabilitation of Existing Buildings, and Acquisition and Installation of New Equipment
7. Address: 900, 915 and 920 Disc Drive
Location: Scotts Valley, CA 95066
County: Santa Cruz County
8. Amount of Allocation: \$8,775,000
9. The Project Sponsor has represented that it reasonably expects the User will use its best efforts to achieve the following within two years of the completion of the Project :
 - Creation of 78 additional direct, full-time positions.

Attachment A

Jun. 24. 2011 7:44AM

No. 3/85 P. 2



ECONOMIC DEVELOPMENT AND REDEVELOPMENT
337 Locust Street, Santa Cruz, CA 95060 • 831 420-5150 • Fax: 831 420-5151 • www.cityofsantacruz.com

June 24, 2011

Ms. Paula Connors
California Infrastructure and
Economic Development Bank
980 9th Street, 9th Floor
Sacramento, CA 95814
Phone: (916) 322-1498/Fax: (916) 322-6314

Re: Bay Photo, Inc. Project

Dear Ms. Connors:

The City of Santa Cruz (the "City") has been made aware that Bay Photo, Inc. (the "Company"), with operations currently located at 2161 Delaware Avenue and 2809 Mission Street in the City of Santa Cruz, is in the process of acquiring a facility in the City of Scotts Valley and will eventually relocate its operations to this site. Further, it is our understanding that the Company is seeking to utilize tax-exempt industrial development bonds (the "Bonds") to finance a portion of the costs associated acquiring and equipping this facility in Scotts Valley.

This letter is to verify that the City has no objection to the issuance of the Bonds for the benefit of the Company.

Please do not hesitate to call if you have any questions regarding this correspondence.

Sincerely,

Julie Hunsicker
on behalf of

Bonnie Lipscomb
Economic Development /Redevelopment Director

cc: Larry Abitbol, Bay Photo, Inc. (via fax: 831-479-9668)

Attachment B



CITY OF SCOTTS VALLEY

OFFICE OF THE CITY MANAGER
One Civic Center Drive · Scotts Valley · California · 95066
Phone (831) 440-5600 · Facsimile (831) 438-2793 · www.scottsvally.org

June 20, 2011

Ms. Eileen Marxen
Executive Director
California Industrial Development Financing Advisory Commission
915 Capitol Mall, Room 457
Sacramento, California 95814

Ms. Paula Connors
Manager, Bond Financing Programs
California Infrastructure and Economic Development Bank
980 9th Street, 9th Floor
Sacramento, California 95814

Re: Bay Photo, Inc. Industrial Development Bond Project

Dear Ms. Marxen & Ms. Connors:

I highly support Bay Photo, Inc. in their application for Industrial Development Bond (IDB) financing. These bonds would provide the critical financing to enable Bay Photo to purchase properties at 900, 915, and 920 Disc Drive in the City of Scotts Valley where they would move and expand their headquarters and processing operations.

Having Bay Photo move here would be very good news for our community which has seen the loss of approximately 400 employees with Seagate Technology's move to Cupertino. The employees that Bay Photo would bring to our City will help support the local businesses that have been hit hard from the current economic times.

I have checked with our Community Development Director, and this site is properly zoned for a business such as Bay Photo. No changes or other approvals are necessary for their immediate use of the buildings.

Thank you for your help with Bay Photo's IDB financing application. If you need any other information from me or the City of Scotts Valley, please don't hesitate to contact me.

Sincerely,

Stephen H. Ando
City Manager

(831) 440-5606 (Direct)
sando@scottsvally.org

Attachment C



CITY OF SCOTTS VALLEY

OFFICE OF THE CITY COUNCIL

One Civic Center Drive • Scotts Valley • California • 95066
Phone (831) 440-5600 • Facsimile (831) 438-2793 • www.scottsvallcy.org

June 21, 2011

Ms. Eileen Marxen
Executive Director
California Industrial Development Financing Advisory Commission
915 Capitol Mall, Room 457
Sacramento, California 95814

Ms. Paula Connors
Manager, Bond Financing Programs
California Infrastructure and Economic Development Bank
980 9th Street, 9th Floor
Sacramento, California 95814

Re: Bay Photo, Inc. Industrial Development Bond Project

Dear Ms. Marxen & Ms. Connors:

As a member of the City Council Economic Development Subcommittee of the City of Scotts Valley, I am pleased that Bay Photo, Inc. has made the decision to locate and expand its headquarters and processing operations in our community. The Economic Development Subcommittee supports this project and Bay Photo's application for Industrial Development Bond ("IDB") financing.

Given the significant size of this project, having access to low-interest rate IDB financing is a critical factor in Bay Photo's decision to stay in Santa Cruz County and locate in Scotts Valley. The California Industrial Development Financing Advisory Commission and the California Infrastructure and Economic Development Bank are encouraged to approve Bay Photo's application for IDB financing as quickly as possible to avoid any possible delays with the project and the company's future expansion plans.

Bay Photo will reuse existing, vacant buildings located at 900, 915, and 920 Disc Drive in Scotts Valley. Until recently, these buildings housed the corporate headquarters, administration, and engineering operations for Seagate Technologies. The property is zoned for commercial and manufacturing uses and is well suited for Bay Photo's operations. No zoning or land use approvals are required for Bay Photo's use of this property.

This site is located in the Scotts Valley Redevelopment Project Area. This project area was designated to alleviate significant blight and encourage economic development. The benefits of the project area include replacement of aging roads and infrastructure, development of a library, community center and transit center, conversion of an abandon airport into a 17-area community park, and implementation of an Affordable Housing Action Plan. Attached is a summary of the accomplishments of the project area.

Bay Photo's decision to acquire the Seagate campus couldn't have come at a better time for Scotts Valley. Seagate, one of the largest employers in Scotts Valley, announced in June 2010 that it would be relocating 2/3 of its local workforce, about 400 employees, to Cupertino. The job losses at Seagate come on top of the headquarters relocation by Borland Software and bankruptcy filing by Avisa Technology. Both companies were major employers in Scotts Valley.

In addition, this project is important for the commercial real estate market in Scotts Valley, a market that has suffered from persistently high vacancy rates in recent years. According to a study conducted by leading commercial real estate broker Cassidy Turley, the vacancy rate for the first quarter of 2011 hovered near 20% in Scotts Valley, the highest vacancy rate in Santa Cruz County. If Bay Photo does not acquire these properties on Disc Drive, the buildings might enter the lease market and increase the local vacancy rate to a level estimated at nearly 27%. Any increase in the vacancy rate adds to the economic and fiscal challenges facing the local community and city government.

As you can see, this is an important project for Scotts Valley and the Santa Cruz County region. Your assistance in facilitating the IDB financing for Bay Photo is greatly appreciated.

Please do not hesitate to contact me if you have any questions.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Randy Johnson', with a long horizontal flourish extending to the right.

Randy Johnson
Councilmember